Nepal: Urban Development Programme I

Ex post evaluation

OECD sector	Multisector	
BMZ project ID	1995 65 128	
Project-executing agency	Town Development Fund (TDF)	
Consultant	Provided by the GTZ	
Year of ex post evaluation	**2006**	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	Q4 1995	Q1 1996
Period of implementation	4.5 years	6 years
Investment costs	EUR 5.573 million	EUR 5.691 million
Counterpart contribution	EUR 0.46 million	EUR 0.951 million
Financing, of which Financial Cooperation (FC) funds	EUR 5.113 million	EUR 4.74 million
Other institutions/donors involved	none	
Performance (overall rating)	3	
• Significance / relevance (sub-rating)	3	
• Effectiveness (sub-rating)	3	
• Efficiency (sub-rating)	3	

Brief description, overall objective and project objectives with indicators

The project was implemented in cooperation with the GTZ and comprised the financing of municipal infrastructure projects, including the planning of the measures and the supervision of construction works, through loans and grants extended to the municipalities involved. The objective of the open programme was to improve the supply of the urban population in Nepal with social and economic infrastructure facilities. In this way, the project was to contribute to maintaining and improving the living conditions of the rapidly growing urban population (overall objective).

The achievement of the overall objective was to be measured by the achievement of the programme objective. The following indicators were defined to measure the achievement of the programme objective: (1) at least 80% of the projects are adequately used, (2) at least 75% of the earnings-generating projects are operated in at least cost-covering manner (including interest); 3) at least 80% of the projects are adequately maintained once the implementation phase has been concluded.

Programme design / major deviations from the original programme planning and their main causes

The project was designed as an open programme under which the municipalities submitted applications for projects. On the basis of the established criteria the TDF decided about which projects were eligible for financing. Finally the projects were implemented by the municipalities with the support of the TDF. In principal, this procedure offers the possibility to the municipalities on the basis of a participatory planning to apply for projects that are related to their new tasks. In practice, however, the projects were selected on the basis of a positive list of possible types of projects issued by the TDF. All project applications had to be adopted by the municipal councils; this procedure was to ensure that political decision-makers could not decide about projects single-handedly.

As a matter of law, the municipalities were responsible for the individual projects, as a matter of fact, however, the TDF played a major role as implementing structure. The TDF was also responsible for monitoring the preparatory studies and the supervision of construction by local consultants. The involvement of the municipalities was restricted to awarding the contracts to companies on the basis of standardised tendering documents. Measured by the planning and technical competences of the municipalities, we consider this procedure as generally acceptable. However, the municipalities should have been more strongly involved during the planning phase of the individual projects. Interviews have revealed that during Phase 1 of the project the TDF had not coordinated the feasibility studies with the municipalities, while the municipalities did not sufficiently involve the different stakeholders. In the final analysis the project design did partly not meet the expectations of the ultimate users.

From the viewpoint of the municipalities the technical support lent by the TDF was of very high quality. It is generally acknowledged that the construction quality of the investments financed by the TDF is higher than comparable investments not supported by the TDF and that the investments are more sustainable and more functional. In the other hand, the TDF was criticised for its lengthy procedures (average handling time of the projects was 27 months, in individual cases even longer than 5 years). Many municipalities are putting up with a loss of quality by seeking finance from the alternative “Municipal Reserve Fund” because this offers them the possibility to implement the planned investment much faster, since such funds can generally be obtained by the municipalities without requiring any technical support. In this respect the TDF should reduce its technical support, and limit it to a quality control, in areas where the municipalities (possibly with the help of other donors) already have sufficient technical capacities of their own (differentiation of the procedure in dependence of the capability and efficiency of the municipalities).

The GTZ supported the TDF in the project implementation by providing an international long-term expert and a local senior coordinator. In addition, the GTZ advised the municipalities on the preparation of land use plans and on financial and management questions raised by the expert and management staff at the municipal and national levels. Thus, the GTZ project was of major importance for the feasibility of the FC project. However, additional synergies might have been achieved through a joint appearance in the municipalities and to a more targeted strengthening of the municipalities to enable them to take advantage of the offers of the TDF.

The individual projects were agreed between the TDF and the municipalities on the basis of the extension of loans or grants. The relation of loans to grants was 42% to 58%. The basis of decision was the type of project (criteria: social or earnings generating) and the income situation of the municipality concerned. The municipalities were divided into two categories, which were subject to different loan terms. The average loan amount was around EUR 100,000. Loan terms were 12 years with two redemption-free grace years. The interest rates of both the preferential loans and the normal loans were clearly subsidized as compared with the market rates applicable at the time (16-20%). At the time of the project start the banking sector was very underdeveloped; it cannot be assumed, however, that private banks were crowded out of the market for municipal financing. Such crowding out cannot be noticed today either, because the TDF now charges a rate of 9.5% for earnings-generating measures, which is even higher than the current market rate of about 7%.

Altogether, 113 individual projects were implemented, 17 of which were financed by loans and 96 by grants. The construction of toilets accounted for the highest number of projects (44). As far as the funding volume is concerned surface water drainage projects accounted for the biggest share (21%). At the time of the final inspection all projects had been concluded or put into operation. The random inspections carried out on 29 projects during final evaluation on site showed that most of them had been in operation for more than five years and were generally in a good condition. Thus, a mean useful life of altogehter 20-30 years can be assumed. The quality of the construction works is satisfactory and sufficient to ensure an economical and simple maintenance of the facilities.

Key results of the impact analysis and performance rating

Under the programme the municipalities obtained financial and technical support to be able to provide urban infrastructure. This helped the municipalities to improve hygiene, the environmental and transport situation, to raise the attractiveness of the townscapes and increase the access to primary education. By providing employment for local workers during the construction phase of the projects the FC project contributed directly to poverty reduction. The participation of women in the design of the projects was supported only in exceptional cases: If user committees had been set up, the TDF supported the involvement of women in order to give them a say in public bodies. Due to the involvement of the municipalities in the planning and implementation of construction measures their administrative competences were strengthened in different areas. This helped to create the prerequisites for productively handling other funds as well. On the whole, the expansion of the economic and social infrastructure helped to strengthen the growth potential of the municipalities.

The programme achieved structural effects because it helped to establish the instrument of municipal lending in Nepal. This instrument creates incentives for the deliberate and targeted allocation of funds, thus supporting the willingness of the municipalities to borrow funds. This is an important prerequisite for the sustainable development of the financial sector in the area of municipal finance. Most of the municipalities proved to be creditable. However, the high repayment rate of approx. 100 % is also due the fact that in the event of repayment problems the Ministry for Local Development deducted the debt service amounts from the central transfer payments and remitted the money directly to the TDF.
Random inspections of the project and interviews with the target group and representatives of the municipal administrations conducted on the occasion of the final evaluation on site in Nepal give the following picture with regard to the achievement of the programme indicators:

<u>Indicator 1</u> "at least 80% of the projects are adequately used" was reached roughly at a rate of 80 %. Cases of insufficient utilisation are mainly due to management failure on the part of the municipal administrations as well as the persisting conflict situation in the country. To give an example: the number of visitors of two parks declined strongly after one of the parks had been partly converted into a military camp and the other park was used as a retreat by the Maoists. Management failure was the reason for insufficient use of shops in a bus station. The station was in a generally bad condition and, therefore, was boycotted by the bus enterprises. For this reason the municipality was only able to rent out less than half of the shops. Despite this problematic situation the municipal administration did not react.

<u>Indicator 2</u> "at least 75% of the earnings-generating projects are operated in at least cost-covering manner " was only reached roughly at a rate of 57.1%. There were altogether ten earnings-generating projects (eight business centres and two bus stations). Again, the picture is a mixed one with failure on the part of the municipalities and third parties. In the case of one of the business centres, which is located near a military camp, customers were not willing to frequent the shops and in consequence the forecast rents could not be achieved. In other cases the municipalities had failed to involve important stakeholders so that the projects were not accepted after completion. If costs are not fully covered the gaps are filled through payments from municipal budgets. Nevertheless, the operation of facilities and loan repayment were financed, which is to be judged negatively in terms of sustainability.

<u>Indicator 3</u> "at least 80% of the projects are adequately maintained once the implementation phase has been concluded" was reached roughly at a rate of 80%. Maintenance proved to be difficult in cases where the municipalities themselves were responsible. This applied in particular to public toilets and the business centres. In cases where user committees were involved (e.g. parks and schools) much more attention was paid to maintenance. Interviews on-site showed that the municipalities had until then not attached sufficient importance to the aspect of maintenance. None of the municipalities had prepared a maintenance plan. In consequence, repairs were done on an ad-hoc basis. In general, the municipalities show

deficiencies in the long-term maintenance of the facilities created because they tend to give priority to new projects when allocating budget funds. In 2004 the municipalities had planned to spend less than 1% of their total expenditure on maintenance, half of which was actually spent in the end (approx. EUR 5,000 per municipality). However, even worse than the financial weakness is the lack of responsibility on the part of the municipal administrations (which is frequently the consequence of the political situation), which leads to indifference and lack of interest in maintenance matters. This is what interviews have revealed. The picture was very much different for projects that were operated by user committees. Even projects that had not been designed as earnings-generating projects produced funds for maintenance from user fees.

In a summarised evaluation of the above mentioned impacts and risks we rate the overall developmental effectiveness of the programme as follows:

Effectiveness

The investments financed under the project (first use of funds) are mostly used intensively. Overall, the sustainability of the investments is satisfactory. Nevertheless, it has to be stated that the municipalities do not attach sufficient importance to the aspect of maintenance. Due to management deficits on the part of the municipal administrations and to the politically difficult situation only 60% of the earnings-generating measures fully cover the costs. The project contributed to improving the technical know-how and the implementation capabilities of the municipalities – though only to a limited extent, which is due to the fact that in many instances the TDF acted in the place of the municipalities. Given the clearly positive impacts on the real economy we rate the effectiveness of the project as adequate (sub-rating: 3).

Significance / Relevance

The chain of cause and effect between the programme objective and the overall objective is plausible: The TDF offers a chance to the municipalities to reduce their infrastructure deficits and, thus, to create better living conditions for the population. Given the continued urbanisation trend this is a priority tasks. The living conditions in the Nepalese towns have generally improved, though the material contribution made by the infrastructure facilities financed under the project was rather small. After all, the project contributed on average 15% of municipal investments. Currently, however, the importance of the TDF for the individual municipalities is declining (2004: 3.5%). Nevertheless, the TDF still has a significant impact on the work of the municipal administrations because the standards, tendering procedures and studies used in the programme are now being broadly used in the investment programmes of the municipalities. Another positive aspect is that the project helped to increase the willingness of the municipalities to borrow funds and that the instrument of the municipal loan was established as such (structural impact). Most of the municipalities proved to be creditable. Though the recent unrest in Nepal (general strike) and the persistent Maoist conflict have indeed impaired the functioning of the municipal administrations, this does, in our opinion, not pose a substantially increased sustainability risk but may possibly even offer perspectives in terms of a higher willingness of the government to introduce reforms. Overall, we judge the project's significance/relevance as sufficient (sub-rating 3).

Efficiency

The specific investment costs of the different infrastructure facilities established, which were of high quality, were acceptable. The implementation efficiency of the TDF during the lifetime of the programme was satisfactory (average handling time of the individual projects was 27 months, however, in individual cases it was longer than 5 years). Programme-specific administrative costs were very low (4%). The performance indicators, however, are showing clearly negative trends (low number of loans per employee, delays, high operating costs). Tariffs raised under some of the earnings-generating projects were not sufficient. Overall, weighing both the production efficiency and allocation efficiency of the projects, we rate the efficiency of the programme as satisfactory (sub-rating 3).

In consideration of the sub-criteria mentioned above, we rate the developmental effectiveness of the project as sufficient overall (**overall evaluation: rating 3**).

General conclusions and recommendations

An institution in charge of providing municipal finance should not act as a social fund, public building owner and municipal bank at the same time. If one municipal finance institution extends grants (social criteria) and loans (economic criteria) at the same time serious conflicts of interest may occur that can hamper the sustainable operation of the facilities financed.

A municipal finance institution needs to have a clear identity and a pro-active public appearance. As long as it understands itself as the project management unit for different donors, which implements different, and sometimes even incoherent programmes, it cannot work efficiently nor can it help to bring about donor harmonisation. Ideally, the different donors should refinance the programme implemented by such an institution and in this context should agree on uniform promotional criteria.

Decentralisation processes frequently produce resistance on the part of the sector ministries involved, which have to give up competences to the local administrations and at the same time make available funds to these administrations. For this reason, and especially to reduce resistance, measures should not only target the local level but should also address the higher central structures.

There is a “trade-off“ between high quality of urban infrastructure (prerequisite for sustainability) and the intensive involvement of the municipalities in the planning and implementation of the individual projects (prerequisite for the municipal administrations to independently perform their tasks on a long-term basis). The purpose of decentralisation projects should be to gradually solve this dilemma – though it is clear that compromise is required with regard to both dimensions.

In a decentralised administrative structure the municipalities are responsible for maintaining the urban infrastructure. However, operation and maintenance is best ensured when people benefit personally. Thus, responsibility for operation and maintenance should be closely conferred on the target group, which means that users have to be involved as much as possible.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	**Very high or high degree of developmental effectiveness**
Rating 2	**Satisfactory developmental effectiveness**
Rating 3	**Overall sufficient degree of developmental effectiveness**
Developmental failures: Ratings 4 to 6	
Rating 4	**Overall slightly insufficient degree of developmental effectiveness**
Rating 5	**Clearly insufficient degree of developmental effectiveness**
Rating 6	**The project is a total failure**

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project’s microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?

- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organisational and/or technical support has come to an end.